

METCALFE COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORT

For the Year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Metcalf County School District
Edmonton, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Metcalf County School District (the "District") as of and for the year then ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for Schools District Audits Independent Auditor's Contract, Appendix I of the Independent Auditor's Contract – Audit Extension Request, and Appendix II of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 3 through 7 and 33 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information shown on Pages 35 through 39 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards on Pages 40 through 42 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the basic financial statements of the District.

The additional information shown on pages 34 through 38 and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information shown on pages 35 through 39 and the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, on our consideration of the Metcalfe County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metcalfe County School Districts internal control over financial reporting.

Wise, Buckner, Sprowles & Associates PLLC

Wise, Buckner, Sprowles & Associates PLLC
Certified Public Accountants

Campbellsville, KY
October 14, 2014

METCALFE COUNTY SCHOOL DISTRICT
EDMONTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED June 30, 2014

As management of the Metcalfe County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit report.

FINANCIAL HIGHLIGHTS

The beginning unassigned general fund balance for the district was \$3,149,651.

Excluding inter-fund transfers, the General Fund had \$12,672,488 in receipts, which consisted primarily of the state program (SEEK), property, local occupational license taxes, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there was \$13,265,913 in General Fund expenditures.

The District's outstanding debt, excluding KISTA, is \$23,999,000 at the end of fiscal year 2014. The decrease in outstanding debt is due to the timely payments of principal and interest due.

The majority of General Fund revenues were derived from state sources, 74% and local taxes, 23%. Regular instruction, student support services staff support services, district and school administration account for 75% of the District expenditures. Central support service expenditures were pupil transportation 9%, maintenance and operations 11%, and business functions 4%.

The District's unrestricted operating fund (General Fund) had \$10,087,500 in revenues, excluding on-behalf payments and transfers, which consisted mainly of Ad Valorem taxes, State SEEK, and Utility tax receipts. Ad Valorem was 17%, state SEEK was 65%, and utility tax receipts was 7%.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and, teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 and 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-32 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$9,996,824 as of June 30, 2014. This reflects a decrease in net assets of \$844,435 from June 30, 2013. The beginning net position at July 1, 2013 was restated at \$10,524,682, a decrease of \$316,577 due to the District's implementation of GASB statements No. 63 and 65 as of July 1, 2013 and is included within the total decrease of net position of \$844,435.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2014 as compared to June 30, 2013

Assets	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current Assets	\$ 4,688,932	\$ 6,822,817
Capital Assets	<u>30,294,702</u>	<u>30,409,369</u>
Total Assets	34,983,634	37,232,186
Liabilities		
Current Liabilities	1,168,251	2,226,858
Non-current Liabilities	<u>23,595,634</u>	<u>24,164,069</u>
Total Liabilities	<u>24,763,885</u>	<u>26,390,927</u>
Deferred Inflows of Resources		
Deferred Revenue	<u>222,925</u>	<u>-</u>
Net Position		
Investment in Capital Assets (net of debt)	6,193,813	5,654,809
Restricted	1,326,866	1,943,433
Unrestricted	<u>2,476,145</u>	<u>3,243,017</u>
Total Net Position	<u>\$ 9,996,824</u>	<u>\$ 10,841,259</u>

Changes in Net Position for the period ending June 30, 2014 as compared to June 30, 2013
(In Millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2013-2014
	2013	2014	2013	2014	2013	2014	
Revenues:							
Charges for Services	\$ 0.00	\$ 0.01	\$ 0.16	\$ 0.15	\$ 0.16	\$ 0.15	-4%
Operating Grants and Contributions	3.02	2.63	0.84	0.91	3.86	3.55	-8%
Capital Grants and Contributions	0.76	0.73			0.76	0.73	-4%
General & Special Revenues	<u>13.86</u>	<u>13.93</u>	<u>0.15</u>	<u>0.11</u>	<u>14.01</u>	<u>14.04</u>	<u>0%</u>
Total Revenue	<u>17.65</u>	<u>17.29</u>	<u>1.15</u>	<u>1.18</u>	<u>18.80</u>	<u>18.47</u>	<u>-2%</u>
Expenses:							
Instructional	9.59	9.14			9.59	9.14	-5%
Student Support Services	0.75	0.89			0.75	0.89	19%
Staff Support Services	0.59	0.55			0.59	0.55	-6%
District Support Services	0.59	0.60			0.59	0.60	2%
School Administration	1.08	1.27			1.08	1.27	17%
Business Support Services	0.60	0.56			0.60	0.56	-6%
Plant Operations & Maintenance	1.71	1.24			1.71	1.24	-27%
Student Transportation	1.23	1.13			1.23	1.13	-8%
Community Service Operations	0.16	0.21			0.16	0.21	29%
Facilities Acquisition & Construction	0.01	1.17			0.01	1.17	11638%
Interest on Long-term Debt	1.15	1.10			1.15	1.10	-4%
Other Financing Fees	0.00	0.00			0.00	0.00	0%
Food Service Operations	<u>0.00</u>	<u>0.00</u>	<u>1.20</u>	<u>1.12</u>	<u>1.20</u>	<u>1.12</u>	<u>100%</u>
Total Expenses	17.46	17.88	1.20	1.12	18.66	19.00	2%
Change in Net Position	<u>\$ 0.19</u>	<u>\$ (0.58)</u>	<u>\$ (0.05)</u>	<u>\$ 0.05</u>	<u>\$ 0.14</u>	<u>\$ (0.53)</u>	<u>-477%</u>

Comments on Budget Comparisons

- Excluding on-behalf payments of \$2,584,989, the General Fund budget compared to actual revenue varied slightly from line item to line item with ending actual balance being \$915,185 more than budgeted due in large part to a generally conservative budgeting approach.
- Actual General Fund expenditures, net of on-behalf payments of \$2,584,989 compared to budget expenditures, net of contingency allotments, was \$1,197,514 less than budget due to administration's careful monitoring of expenditures.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2014.

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Food Service
REVENUES					
Local sources	\$ 3,167,965	\$ 33,831	\$ 157	\$ 434,071	\$ 147,275
State sources	9,206,439	608,397	-	1,190,106	112,995
Federal sources	19,795	1,988,474	-	660,026	914,921
Other sources	<u>278,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	12,672,488	2,630,702	157	2,284,203	1,175,191
EXPENDITURES					
Instruction	6,930,443	2,308,466	-	-	-
Student support	676,519	147,669	-	-	-
Inst. Support	527,830	10,698	-	-	-
District Admin	587,093	-	-	-	-
School Admin	1,262,757	-	-	-	-
Business support	558,882	-	-	-	-
Plant operations	1,500,940	-	-	-	-
Student transp	1,133,197	-	-	-	-
Non-instructional	-	-	-	-	-
Adult Education Operations	-	-	-	-	-
Comm service operations	18,771	186,103	-	-	-
Land/Site Acquisitions	69,481	-	1,104,345	-	-
Debt service	-	-	-	1,763,614	-
Building renovation	-	-	-	-	-
Food services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,121,079</u>
Total Expenditures	<u>13,265,913</u>	<u>2,652,936</u>	<u>1,104,345</u>	<u>1,763,614</u>	<u>1,121,079</u>
Excess (Deficiency) Before Transfers	(593,425)	(22,234)	(1,104,188)	520,589	54,112
Fund transfers (net)	<u>7,508</u>	<u>22,234</u>	<u>677,008</u>	<u>(706,750)</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>\$ (585,917)</u>	<u>\$ -</u>	<u>\$ (427,180)</u>	<u>\$ (186,161)</u>	<u>\$ 54,112</u>

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2014-2015 with a 4% contingency. Significant Board action that impacts the finances includes an across-the-board pay increase of 1% for all employees.

Questions regarding this report should be directed to Dr. Benny Lile, Superintendent or Dwight Ross, Director of Finance at 270-432-3171 or by mail at 109 Sartin Drive, Edmonton, Kentucky 42129.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current Assets:			
Cash & Cash Equivalents	\$ 3,135,084	\$ 63,482	\$ 3,198,566
Inventories for Consumption	-	21,540	21,540
Accounts Receivable			
Taxes - Current	64,339	-	64,339
Taxes - Delinquent	-	-	-
Other Accounts Receivable	61,881	-	61,881
Intergovernmental - State	-	-	-
Intergovernmental - Federal	362,324	9,794	372,118
Investments	970,488	-	970,488
Total current assets	<u>4,594,116</u>	<u>94,816</u>	<u>4,688,932</u>
Noncurrent Assets:			
Land	1,151,420	-	1,151,420
Capital Assets net of			
Accumulated depreciation	<u>28,992,555</u>	<u>150,727</u>	<u>29,143,282</u>
Total noncurrent assets	<u>30,143,975</u>	<u>150,727</u>	<u>30,294,702</u>
Total Assets	<u>34,738,091</u>	<u>245,543</u>	<u>34,983,634</u>
Liabilities:			
Current Liabilities:			
Checks Issued in Excess of Cash	139,400	-	139,400
Accounts Payable	69,410	-	69,410
Accrued Interest Payable	86,396	-	86,396
Other Accrued Liabilities	115,806	-	115,806
Current portion of bond obligations	641,000	-	641,000
Current portion of loans payable	19,000	-	19,000
Current portion of accrued sick leave	97,239	-	97,239
Total Current liabilities	<u>1,168,251</u>	<u>-</u>	<u>1,168,251</u>
Noncurrent liabilities:			
KISBIT Payable	57,506	-	57,506
Noncurrent portion of bond obligations	23,358,000	-	23,358,000
Noncurrent portion of loans payable	82,889	-	82,889
Noncurrent portion of accrued sick leave	97,239	-	97,239
Total noncurrent liabilities	<u>23,595,634</u>	<u>-</u>	<u>23,595,634</u>
Total liabilities	<u>24,763,885</u>	<u>-</u>	<u>24,763,885</u>
Deferred Inflows of Resources			
Deferred revenue	<u>222,925</u>	<u>-</u>	<u>222,925</u>
Net Position			
Net Investment in Capital Assets	6,043,086	150,727	6,193,813
Restricted for			
Inventories	-	21,540	21,540
Capital Projects	211,784	-	211,784
Debt Service	1,093,542	-	1,093,542
Unrestricted	<u>2,402,869</u>	<u>73,276</u>	<u>2,476,145</u>
Total Net Position	<u>\$ 9,751,281</u>	<u>\$ 245,543</u>	<u>\$ 9,996,824</u>

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instructional	\$ 9,144,585	\$ 5,000	\$ 2,286,232	\$ -	\$ (6,853,353)	\$ -	\$ (6,853,353)
Support Services							
Student Support Services	889,854	-	147,670	-	(742,184)	-	(742,184)
Staff Support Services	552,786	-	10,698	-	(542,088)	-	(542,088)
District Administration	604,069	-	-	-	(604,069)	-	(604,069)
School Administration	1,268,614	-	-	-	(1,268,614)	-	(1,268,614)
Business Support Services	562,548	-	-	-	(562,548)	-	(562,548)
Plant Operation & Maintenance	1,239,888	-	-	-	(1,239,888)	-	(1,239,888)
Student Transportation	1,129,952	-	-	-	(1,129,952)	-	(1,129,952)
Community Service Operations	206,422	-	186,103	-	(20,319)	-	(20,319)
Facilities Acquisition & Construction	1,173,826	-	-	729,897	(443,929)	-	(443,929)
Interest on Long-Term Debt	1,102,280	-	-	-	(1,102,280)	-	(1,102,280)
Total Governmental Activities	17,874,824	5,000	2,630,703	729,897	(14,509,224)	-	(14,509,224)
Business-Type Activities							
Food Service	1,121,079	148,333	914,922	-	-	(57,824)	(57,824)
Total business-type activities	1,121,079	148,333	914,922	-	-	(57,824)	(57,824)
Total primary government	\$ 18,995,903	\$ 153,333	\$ 3,545,625	\$ 729,897	(14,509,224)	(57,824)	(14,567,048)
General Revenues:							
Taxes					3,325,005	-	3,325,005
State Aid - Formula Grants					10,312,637	112,995	10,425,632
Investment Earnings					47,206	1,796	49,002
Miscellaneous					258,813	-	258,813
Special items:							
Gain(Loss) Sale of Assets					(16,407)	(2,855)	(19,262)
Total general and special					13,927,254	111,936	14,039,190
Change in net position					(581,970)	54,112	(527,858)
Net position - Beg., restated					10,333,251	191,431	10,524,682
Net position - ending					\$ 9,751,281	\$ 245,543	\$ 9,996,824

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets and resources:					
Cash & Cash Equivalents	\$ 2,800,246	\$ -	\$ 211,784	\$ 123,054	\$ 3,135,084
Investments	-	-	-	970,488	970,488
Accounts Receivable:					
Taxes - Current	64,339	-	-	-	64,339
Taxes - Delinquent	254	-	-	-	254
Other Accounts Receivable	61,626	1	-	-	61,627
Intergovernmental - Federal	-	362,324	-	-	362,324
Total assets and resources	<u>\$ 2,926,465</u>	<u>\$ 362,325</u>	<u>\$ 211,784</u>	<u>\$ 1,093,542</u>	<u>\$ 4,594,116</u>
Liabilities and fund balance:					
Liabilities:					
Checks Issued in Excess of Cash	\$ -	\$ 139,400	\$ -	\$ -	\$ 139,400
Accounts Payable	69,410	-	-	-	69,410
Other Accrued Liabilities	115,806	-	-	-	115,806
Accrued Sick Leave	97,239	-	-	-	97,239
Deferred Revenues	-	222,925	-	-	222,925
Total Liabilities	<u>282,455</u>	<u>362,325</u>	<u>-</u>	<u>-</u>	<u>644,780</u>
Fund balance					
Restricted - Debt Service	-	-	-	970,488	970,488
Restricted - Future Construction Projects	-	-	178,191	123,054	301,245
Restricted - Other	-	-	33,593	-	33,593
Committed - Sick Leave Payable	97,239	-	-	-	97,239
Assigned -Purchase Obligations	124,782	-	-	-	124,782
Unassigned Fund Balance	<u>2,421,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,421,989</u>
Total Fund Balance	<u>2,644,010</u>	<u>-</u>	<u>211,784</u>	<u>1,093,542</u>	<u>3,949,336</u>
Total liabilities and fund balance	<u>\$ 2,926,465</u>	<u>\$ 362,325</u>	<u>\$ 211,784</u>	<u>\$ 1,093,542</u>	<u>\$ 4,594,116</u>

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balance		\$ 3,949,336
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	\$ 41,018,103	
Accumulated Depreciation	<u>(10,874,128)</u>	30,143,975
Bond issuance cost are not financial resources and therefore are not reported as assets in governmental funds		
		-
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Accrued Interest Payable	(86,396)	
Bonds Payable	(24,100,889)	
KSBIT Payable	(57,506)	
Accrued Sick Leave	<u>(97,239)</u>	<u>(24,342,030)</u>
Total net position - governmental activities		<u><u>\$ 9,751,281</u></u>

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General	Special Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$2,908,489	\$ -	\$ -	\$ 416,516	\$ 3,325,005
Earnings on Investments	29,314	180	157	17,555	47,206
Intergovernmental - State	9,206,439	608,397	-	1,190,106	11,004,942
Intergovernmental - Federal	19,795	1,988,474	-	660,026	2,668,295
Other Sources	230,162	33,651	-	-	263,813
Total revenues	12,394,199	2,630,702	157	2,284,203	17,309,261
Expenditures:					
Instructional	6,930,443	2,308,465	-	-	9,238,908
Student Support Services	676,519	147,670	-	-	824,189
Staff Support Services	527,830	10,698	-	-	538,528
District Administration	587,093	-	-	-	587,093
School Administration	1,262,757	-	-	-	1,262,757
Business Support Services	558,882	-	-	-	558,882
Plant Operation & Maintenance	1,500,940	-	-	-	1,500,940
Student Transportation	1,133,197	-	-	-	1,133,197
Community Service Operations	18,771	186,103	-	-	204,874
Land/Site Acquisitions	69,481	-	1,104,345	-	1,173,826
Debt Service					
Principal	-	-	-	653,671	653,671
Interest	-	-	-	1,109,943	1,109,943
Total expenditures	13,265,913	2,652,936	1,104,345	1,763,614	18,786,808
Excess(deficit) revenues over expenditures	(871,714)	(22,234)	(1,104,188)	520,589	(1,477,547)
Other financing sources (uses):					
Proceeds from Sale of Assets	278,289	-	-	-	278,289
Operating Transfers In	29,742	22,234	677,008	1,116,672	1,845,656
Operating Transfers Out	(22,234)	-	-	(1,823,422)	(1,845,656)
Total other financing sources (uses)	285,797	22,234	677,008	(706,750)	278,289
Net change in fund balances	(585,917)	-	(427,180)	(186,161)	(1,199,258)
Fund balances - beginning	3,229,927	-	638,964	1,279,703	5,148,594
Fund balances - ending	\$2,644,010	\$ -	\$ 211,784	\$ 1,093,542	\$ 3,949,336

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of net assets are different because:

Net changes - governmental funds	\$ (1,199,258)
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Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital assets exceeds depreciation expense for the year.

Depreciation Expense	\$ (1,989,332)	
Capital Outlays	<u>2,185,300</u>	195,968

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal Paid	653,671	
Bond Proceeds	<u>-</u>	653,671

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

Accrued Interest Payable	7,663	
Accrued Sick Leave	(36,730)	
KSBIT Payable	91,412	
Amortization Bond Issuance Cost	<u>(316,577)</u>	(254,232)

In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.

Sale of Asset net of Gain	<u>21,881</u>	<u>21,881</u>
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Changes - net position governmental funds	<u>\$ (581,970)</u>
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METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Food Service Fund
Assets:	
Current Assets	
Cash & Cash Equivalents	\$ 63,482
Accounts Receivable	9,794
Inventories for Consumption	21,540
Total Current Assets	<u>94,816</u>
Noncurrent Assets	
Capital Assets net of Accumulated Depreciation	<u>150,727</u>
Total Noncurrent Assets	<u>150,727</u>
Total assets	<u><u>\$ 245,543</u></u>
Liabilities:	
Current Liabilities	
Checks Issued in Excess of Cash	\$ -
Accounts Payable	<u>-</u>
Total Current Liabilities	-
Net Position	
Net Investment in Capital Assets	150,727
Restricted:	
Nonexpendable- Inventory	21,540
Unrestricted	<u>73,276</u>
Total Net Position	<u><u>\$ 245,543</u></u>

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Food Service Fund
Operating Revenues:	
Lunchroom Sales	\$ 148,333
Total operating revenues	<u>148,333</u>
Operating Expenses:	
Salaries & Benefits	501,750
Contract Services	5,478
Materials & Supplies	595,977
Depreciation - Note F	17,663
Other Operating Expenses	211
Total operating expenses	<u>1,121,079</u>
Operating income (loss)	(972,746)
Nonoperating Revenues (Expenses):	
Federal Grants	853,746
State Grants	112,995
Donated Commodities	61,176
Interest Income	1,796
Loss on Sale of Asset	(2,855)
Total nonoperating revenue	<u>1,026,858</u>
Income (loss) before capital contributions and transfers	54,112
Transfers in	<u>-</u>
Change in net position	54,112
Total net position - beginning	<u>191,431</u>
Total net position - ending	<u><u>\$ 245,543</u></u>

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

Cash Flows From Operating Activities:

Cash Received From	
Lunchroom sales	\$ 148,333
Other activities	-
Cash paid to/for	
Employees	(398,609)
Supplies	(608,360)
Other activities	(5,689)
Net cash provided (used) by operating activities	<u>(864,325)</u>

Cash Flows From Noncapital Financing Activities:

State Grants	9,854
Transfer In	-
Federal Grants	920,736
Net cash provided (used) by noncapital financing activities	<u>930,590</u>

Cash Flows From Capital Financing Activities:

Purchase of Assets	(4,579)
Net cash provided (used) by noncapital financing activities	<u>(4,579)</u>

Cash Flows From Investing Activities:

Receipt of interest income	1,796
Net cash provided (used) by investing activities	<u>1,796</u>
Net increase (decrease) in cash and cash equivalents	63,482

Balances, Beginning of Year	<u>-</u>
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Balances, End of Year	<u><u>\$ 63,482</u></u>
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Reconciliation of change in net income to net cash provided (used) by operating activities:

Operating Income (Loss)	\$ (972,746)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	17,663
State On-Behalf Payments	103,141
Donated Commodities	61,176
Change in assets and liabilities	
(Increase) Decrease in Receivables	-
Increase (Decrease) in Checks Issued in Excess of Cash	(72,924)
Increase (Decrease) in Payables	(3,861)
(Increase) Decrease in Inventory	3,226
Net cash provided (used) by operating activities	<u><u>\$ (864,325)</u></u>

Schedule of non-cash transactions:

On Behalf Payments from the State for Employee Benefits	\$ 103,141
Donated Commodities Received from Federal Government	61,176

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash and Cash Equivalents	\$ 178	\$ 153,008
Accounts Receivable	-	1,555
Total assets	<u>178</u>	<u>154,563</u>
Liabilities		
Accounts Payable	-	930
Due to Student Groups	-	153,633
Total liabilities	<u>-</u>	<u>154,563</u>
Net position held in trust	<u>\$ 178</u>	<u>\$ -</u>

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2014

	<u>Private Purpose Trust Fund</u>
Additions	
Scholarship Funds Contributed	\$ 3,167
Deductions	
Benefits Paid	<u>(4,200)</u>
Changes in Net Position	(1,033)
Net position - beginning of year	<u>1,211</u>
Net position - end of year	<u><u>\$ 178</u></u>

See accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metcalfe County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Metcalfe County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Metcalfe County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Metcalfe County School District Finance Corporation – The Metcalfe County, Kentucky, Board of Education has established the Metcalfe County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The Government-Wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The Government-Wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

In the District-wide Statement of Net Position and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on Pages 39 and 40. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund). The District's Capital Project Funds include:
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund.

Operating revenues in the proprietary funds are the revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds and Private Purpose Trust Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust Fund consists of teacher contributions and disbursements for student scholarships.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

When both restricted and unrestricted resources are available, it is the District's policy to use restricted first, then unrestricted resources, as they are needed.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported in inventory.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures rather than expenses). Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.499 per \$100 valuation for real property, \$0.499 per \$100 valuation for business personal property, and \$0.566 per \$100 valuation for motor vehicles. An assessment of \$0.110 per \$100 for real and tangible property is included and is restricted for allocation to the Building Fund

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

Board policy has set the capitalization threshold for reporting capital assets at \$5,000. All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	Governmental Activities
	<u>Estimated Lives</u>
Buildings	50 years
Building Improvements	25 years
Technology Improvements	5 years
School Buses	10 years
Vehicles	5 years
Food Service Equipment	12 years
Audio-Visual Equipment	15 years
Other General Equipment	10 years

Inter-fund Balances

On fund financial statements, receivables and payable resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

On-behalf payments were not considered in the budget.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Investments

The District's investments consist of deposits made in escrow for future debt service requirements for the District's Series 2011 Qualified School Construction Bonds and invested by the Bank of New York Mellon, Louisville, KY, the Escrow Agent for the bond issue. Investments are recorded at fair value.

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the Enterprise Fund. Inventory consists of donated and purchased food held for resale and is expensed when used. Purchased food is valued at cost and the U.S. Government donated commodities value is determined by the U.S. Department of Agriculture.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

Beginning with fiscal year 2010, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

- Non-spendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balances-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balances-amounts that are available for any purpose; positive amounts are reported only in the General Fund

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District's board has provided otherwise in its commitment or assignment actions.

Net Position

Net positions represent the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. Expenses are primarily payroll, food costs and supply purchases.

Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Board's policy is to apply restricted net assets first.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities,

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE B – ESTIMATES – (CONTINUED)

fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. At year-end, the carrying amount of the District's total cash and cash equivalents was \$3,212,352. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$2,962,352 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2014, consisted of the following:

	Bank Balance	Book Balance
Edmonton State Bank	\$ 3,608,724	\$ 3,212,352
		<u>\$ 3,212,352</u>

Breakdown per financial statements:

Governmental Funds	\$ 2,995,684
Proprietary Funds	63,482
Fiduciary Funds	153,186
	<u>\$ 3,212,352</u>

NOTE D – INVESTMENTS

As of June 30, 2014, the District had the following investments and maturities:

	Fair Value	Average Credit Quality/ Ratings (1)	Maturities Less Than 1 Year
Federal Home Loan Loan Bank Note	970,488		970,488
Total Investments	<u>\$ 970,488</u>		<u>\$ 970,488</u>

(1) Ratings are provided where applicable to indicate associated *Credit Risk*, N/A indicates not applicable. Ratings are from Moody's Investors Service.

The District had no investments reported at amortized cost.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the District's investing activities are under the custody of the District Finance Director. Investing policies comply with State Statutes. Kentucky Revised Statute 66.480 defines the following items as permissible investments:

- Obligations of the United States and of its agencies and instrumentalities;
- Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency;

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE D – INVESTMENTS (CONTINUED)

- Obligations of any corporation of the United States Government;
- Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.204(4)
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- Commercial paper rated in the highest category by a nationally recognized rating agency;
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency; and
- Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's \$970,488 in investments at June 30, 2014, \$479,640 of the underlying securities are held by the investment counterparty's trust department, not in the name of the District.

NOTE E – CAPITAL ASSETS

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Land	\$ 215,406	\$ -	\$ (40,701)	\$ 174,705
Land Improvements	1,168,161	-	(191,445)	976,716
Building & Building Improvements	10,288,690	24,728,910	(786,530)	34,231,070
Technology Equipment	3,160,865	304,411	(541,516)	2,923,760
Vehicles	2,056,146	175,665	(97,905)	2,133,906
General Equipment	665,710	-	(87,764)	577,946
Construction in Progress	23,023,687	-	(23,023,687)	-
Total at historical cost	40,578,665	25,208,986	(24,769,548)	41,018,103
Less Accumulated Depreciation for:				
Land Improvements	1,038,471	18,782	(172,965)	884,288
Building & Building Improvements	5,222,489	1,420,340	(534,872)	6,107,957
Technology Equipment	2,291,670	353,407	(559,401)	2,085,676
Vehicles	1,298,448	171,652	(97,322)	1,372,778
General Equipment	484,883	25,151	(86,605)	423,429
Total accumulated depreciation	10,335,961	1,989,332	(1,451,165)	10,874,128
Governmental activities capital assets, net	<u>\$ 30,242,704</u>	<u>\$ 23,219,654</u>	<u>\$ (23,318,383)</u>	<u>\$30,143,975</u>

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

NOTE E – CAPITAL ASSETS – (CONTINUED)

	Beginning Balance	Additions	Retirements	Ending Balance
Proprietary Activities				
Building & Building Improvements	\$ 175,489	\$ -	\$ (8,112)	\$ 167,377
Technology Equipment	37,178	4,579	(3,206)	38,551
General Equipment	354,890	-	(153,224)	201,666
Total at historical cost	567,557	4,579	(164,542)	407,594
Less Accumulated Depreciation for:				
Building & Building Improvements	80,271	3,172	(8,112)	75,331
Technology Equipment	19,711	5,714	(3,206)	22,219
General Equipment	300,910	8,776	(150,369)	159,317
Total accumulated depreciation	400,892	17,662	(161,687)	256,867
Proprietary activities capital assets, net	<u>\$ 166,665</u>	<u>\$ (13,083)</u>	<u>\$ (2,855)</u>	<u>\$ 150,727</u>

Depreciation expense charged to governmental functions as follows:

Plant Operation & Maintenance	\$ 1,452,127
Instructional	258,943
Student Transportation	164,465
Student Support Services	65,665
District Administration	20,625
Staff Support Services	14,258
School Administration	8,035
Business Support Services	3,666
Community Service Operations	1,548
Total	<u>\$ 1,989,332</u>

NOTE F – GENERAL LONG – TERM DEBT

Bonds Payable

The amount shown in the accompanying government-wide financial statements as bond principal outstanding represents the District's future obligations to make payments relating to the bonds issued by the Metcalfe County School District Finance Corporation.

The original amount of each issue and interest rates are summarized below:

2010 Series	\$ 12,735,000	0.70%-5.50%
2003 Series	\$ 665,000	1.75%-4.40%
2003 Series B	\$ 2,690,000	2.00%-3.50%
2010 Series	\$ 12,735,000	0.70%-5.50%

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

NOTE F – GENERAL LONG – TERM DEBT – (CONTINUED)

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Metcalfe County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The school facilities are pledged as security for the related bonds and the District is required to maintain adequate property insurance on the facilities.

The District has “participation agreements” with the Kentucky School Facility Construction Commission (the Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statement.

The 2010 Bond was issued under the Build America Bonds Program under the America Recovery and Investment Act of 2009. Provisions under the Build America Bonds Program allow for the District to receive a “direct pay” from the federal government of 35% of the interest obligation for the District.

The Series 2011 Bond was issued under the Qualified School Construction Bond under the America Recovery and Reinvestment Act of 2009 and the Hiring Incentive to Restore Employment Act of 2010. Provisions under the Qualified School Construction Bond program allow for a “direct pay” from the federal government of 100% of the interest obligation for the District.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2014, for debt service (principal and interest) are as follows:

Year Ending June 30,	Metcalfe County School District		Kentucky School Facility Construction Commission		Federal	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2014-15	\$ 504,186	\$ 265,349	\$ 136,814	\$ 109,282	\$ 709,132	\$ 1,724,763
2015-16	512,125	257,984	132,875	105,614	704,812	1,713,410
2016-17	520,700	248,938	129,300	101,895	699,361	1,700,194
2017-18	533,160	239,168	121,842	97,895	693,107	1,685,172
2018-19	543,703	228,223	679,403	93,640	685,862	2,230,831
2020-24	2,926,732	927,193	768,446	382,868	3,284,335	8,289,574
2025-29	3,345,710	487,514		202,578	2,964,552	7,000,354
2030-34	8,758,224	47,105	4,385,780	17,565	812,716	14,021,390
	<u>\$ 17,644,540</u>	<u>\$ 2,701,474</u>	<u>\$ 6,354,460</u>	<u>\$ 1,111,337</u>	<u>\$ 10,553,877</u>	<u>\$ 38,365,688</u>

Loans Payable

The District entered into loans from the Kentucky Inter-local School Transportation Association (KISTA) during the 2000 fiscal year for the purpose of making various capital improvements to the District’s school facilities. Interest is payable semiannually on June 1 and December 1 at rates noted as follows:

Issue Date	Proceeds	Rates
July 1999	\$ 173,000	3.90% - 5.30%
August 1999	\$ 128,000	4.60% - 5.60%

NOTE F – GENERAL LONG – TERM DEBT – (CONTINUED)

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

Principal on the first loan is due annually on December 1. Principal on the second loan will be payable annually on June 1. The Commission has expressed the intention to make 100% of the principal and interest payments for the July and August 1999 loans. Debt service on the loans is as follows:

Year Ending June 30,	Kentucky School Facility Construction Commission	
	Principal	Interest
2014-15	\$ 19,000	\$ 5,334
2015-16	19,100	4,335
2016-17	21,000	3,284
2017-18	22,250	2,123
2018-19	20,539	916
	<u>\$ 101,889</u>	<u>\$ 15,992</u>

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Due within One Year
Primary Government					
Revenue Bond Payable	\$ 13,479,000	\$ -	\$ 633,000	\$ 12,846,000	\$ 641,000
Qualified School Constr. Bonds	11,153,000	-	-	11,153,000	-
Loans Payable	122,560	-	20,671	101,889	19,000
KISBIT Payable	148,918	-	72,243	76,675	19,169
Accrued Sick Leave	121,018	89,506	16,046	194,478	97,239
Governmental Activities					
Long-Term Liabilities	<u>\$ 25,024,496</u>	<u>\$ 89,506</u>	<u>\$ 741,960</u>	<u>\$ 24,372,042</u>	<u>\$ 776,408</u>

The total interest incurred for the year ended June 30, 2014 was \$1,102,280, all of which was charged to expense.

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has various operating leases for copiers and office equipment. The following is a schedule of future minimum lease payments.

Year Ending June 30,	
2014	\$ 18,273
2015	5,690
2016	<u>1,298</u>
Total Minimum Rentals	<u>\$ 25,261</u>

Rent expense for the year ended June 30, 2014 was \$39,872

NOTE H – ACCUMULATED UNPAID SICK LEAVE BENEFITS

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

Upon retirement from the school system, a certified employee will receive from the District 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. As of June 30, 2014, management has estimated the accrued sick leave liability obligation will be approximately \$194,478.

In accordance with GASB Statement No. 34, the government fund financial statements reflect the current portion of sick leave payable of \$97,239. This is the amount anticipated to be funded with current year's economic financial resources.

NOTE I – RETIREMENT PLANS

Kentucky Teacher's Retirement

The Metcalfe County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. All members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 14.605% of salaries for members. The federal program for any salaries paid by that program pays the matching contributions. During the years ended June 30, 2014, 2013 and 2012, contributions of \$958,960, \$881,068, and \$899,554 were made by the State of Kentucky and \$112,391, \$123,898 and \$149,171 in contributions were passed through the District's federally funded programs. The employee contribution rates of 11.355% are actuarially determined and withheld by the District. Such withholdings during the years ended June 30, 2014, 2013 and 2012 totaled \$832,948, \$815,963 and \$821,101 and were paid by the District to the State of Kentucky as required. The District has no other liability under the plan. The District's total payroll for all employees during the years ended June 30, 2014, 2013 and 2012 was \$9,608,760, \$10,206,888 and \$10,556,539 and \$7,335,506, \$7,519,634 and \$7,861,781 of such amounts related to employees covered by the retirement plan. All payments were made to the retirement system in the amount of the annually required contributions.

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and 6% (for new hires) and a District contribution for the years ended June 30, 2014, 2013 and 2012 of 18.89%, 19.55% and 18.96% of the employee's total compensation subject to contribution. The contribution rate is actuarially determined. The District's contribution requirement for CERS for the years ended June 30, 2014, 2013 and 2012 was \$429,418, \$442,250 and \$442,250 from the District and \$117,522, \$115,881 and \$119,361 from employees. The total covered payroll for CERS during the years ended June 30, 2014, 2013 and 2012 was \$2,273,254, \$2,687,254 and \$2,694,758. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All payments were made to the retirement system in the amount of the annually required contributions.

The County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE I – RETIREMENT PLANS – (CONTINUED)

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2014

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on this financial statement.

NOTE J – ON-BEHALF PAYMENTS

The following payments made by the state on-behalf of employees of the District and for the benefit of the District are recognized in the district-wide financial statements as additional revenue and expenditures for the year ended June 30, 2014:

Health Insurance	\$ 1,962,172
Kentucky Teacher's Retirement System	860,472
Technology	36,866
Flexible Plans	45,325
Administrative Fees	19,338
Life Insurance	4,084
Less: Federal Reimbursements	<u>(240,127)</u>
Total	<u><u>\$ 2,688,130</u></u>

NOTE K – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected, to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE L – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers' Compensation insurance.

NOTE M – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members

NOTE M – RISK MANAGEMENT (CONTINUED)

**METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2014

established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE N – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit balance. In addition, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General	\$ 585,917
Construction	\$ 427,180
Capital Outlay	\$ 180,053
Building Fund	\$ 496,956

NOTE O – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE P – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 22,234
Operating	Capital Outlay	General	Operating	29,742
Operating	Capital Outlay	Construction	Construction	180,052
Operating	Capital Outlay	Debt Service	Debt Service	109,218
Operating	Building Fund	Construction	Construction	496,956
Operating	Building Fund	Debt Service	Debt Service	1,007,454
				<u>\$ 1,845,656</u>

NOTE Q - RESTRICTED NET ASSETS

The government-wide statement of net position reports \$1,326,866 of restricted net assets, of which \$211,784 is restricted by enabling legislation.

NOTE R – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position; and GASB Statement No. 65, Items Previously Reported as Assets and liabilities. Application of these standards required restatement of portions of these financial statements as follows:

Net Position, July 1, 2013 as Previously Reported	\$ 10,841,259
Expense Bond Issuance Costs Previously Capitalized	<u>(316,577)</u>
 Net position, July 1, 2013 as Restated	 <u><u>\$ 10,524,682</u></u>

NOTE S – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 14, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 2,226,317	\$ 2,471,000	\$ 2,908,489	\$ 437,489
Other Local Sources	12,000	12,000	29,314	17,314
State Sources	6,199,173	6,639,947	9,206,439	2,566,492
Federal Sources	-	20,000	19,795	(205)
Other Sources	1,000	59,110	538,193	479,083
Total revenues	8,438,490	9,202,057	12,702,231	3,500,174
Expenditures				
Instructional	5,706,561	6,014,176	6,930,443	(916,267)
Student Support Services	581,315	517,530	676,519	(158,989)
Staff Support Services	384,824	411,861	527,830	(115,969)
District Administration	447,112	641,044	587,093	53,951
School Administration	785,554	959,789	1,262,757	(302,968)
Business Support Services	504,099	447,193	558,882	(111,689)
Plant Operation & Maintenance	1,440,706	1,276,523	1,500,940	(224,417)
Student Transportation	1,124,903	1,246,205	1,133,197	113,008
Community Service Operations	-	21,104	18,771	2,333
Land/Site Acquisitions	200,000	124,017	69,481	54,536
Debt Service	413,482	216,230	-	216,230
Debt Service Other	350	-	-	-
Other	587,189	456,385	22,234	434,151
Total expenditures	12,176,096	12,332,057	13,288,148	(956,091)
Net change in fund balance	(3,737,606)	(3,130,000)	(585,917)	2,544,083
Fund balance - beginning	3,737,606	3,130,000	3,229,927	99,927
Fund balance - ending	\$ -	\$ -	\$ 2,644,010	\$ 2,644,010

On-Behalf Payments of \$2,584,989 are not budgeted by the Metcalfe County School District

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Other Local Sources	\$ -	\$ 252	\$ 180	\$ (72)
State Sources	-	603,463	608,397	4,934
Federal Sources	-	1,704,815	1,988,474	283,659
Other Sources	-	45,347	55,885	10,538
Total revenues	-	2,353,877	2,652,936	299,059
Expenditures:				
Instructional	-	1,715,069	2,308,465	(593,396)
Student Support Services	-	111,698	147,670	(35,972)
Staff Support Services	-	6,059	10,698	(4,639)
District Administration	-	-	-	-
Plant Operation & Maintenance	-	-	-	-
Community Service Operations	-	179,362	186,103	(6,741)
Total expenditures	-	2,012,188	2,652,936	(640,748)
Net change in fund balance	-	341,689	-	(341,689)
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ 341,689</u>	<u>\$ -</u>	<u>\$ (341,689)</u>

SUPPLEMENTARY INFORMATION

METCALFE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2014

	Capital Outlay	Building Fund	Debt Service	Total Non-Major Governmental Funds
Assets				
Cash & Cash Equivalents	\$ 123,054	\$ -	\$ -	\$ 123,054
Investments	-	-	970,488	970,488
Accounts Receivable				
Taxes	-	-	-	-
Other Accounts Receivable	-	-	-	-
Total assets	<u>\$ 123,054</u>	<u>\$ -</u>	<u>\$ 970,488</u>	<u>\$ 1,093,542</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Sick Leave	-	-	-	-
Total liabilities	-	-	-	-
Fund Balances				
Restricted - SFCC Escrow Current Offer	-	-	-	-
Restricted - Debt Service	-	-	970,488	970,488
Restricted - Future Construction	123,054	-	-	123,054
Unassigned	-	-	-	-
Total fund balances	<u>123,054</u>	<u>-</u>	<u>970,488</u>	<u>1,093,542</u>
Total liabilities and fund balance	<u>\$ 123,054</u>	<u>\$ -</u>	<u>\$ 970,488</u>	<u>\$ 1,093,542</u>

METCALFE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Capital Outlay	Building Fund	Debt Service	Total Non-Major Governmental Funds
Revenues:				
Taxes	\$ -	\$ 416,516	\$ -	\$ 416,516
Earnings from Investments	-	-	17,555	17,555
Intergovernmental - State	138,959	590,938	460,209	1,190,106
Intergovernmental - Federal	-	-	660,026	660,026
Other Sources	-	-	-	-
Total revenues	<u>138,959</u>	<u>1,007,454</u>	<u>1,137,790</u>	<u>2,284,203</u>
Expenditures:				
Instructional	-	-	-	-
Student Support Services	-	-	-	-
Staff Support Services	-	-	-	-
District Administration	-	-	-	-
School Administration	-	-	-	-
Business Support Services	-	-	-	-
Plant Operations & Maintenance	-	-	-	-
Student Transportation	-	-	-	-
Central Office	-	-	-	-
Community Service Operations	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service				
Principal	-	-	653,671	653,671
Interest	-	-	1,109,943	1,109,943
Other	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>1,763,614</u>	<u>1,763,614</u>
Excess (deficit) revenues over expenditures	138,959	1,007,454	(625,824)	520,589
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds	-	-	-	-
Proceeds from Sale of Assets	-	-	-	-
Operating Transfers In	-	-	1,116,672	1,116,672
Operating Transfers Out	(319,012)	(1,504,410)	-	(1,823,422)
Total other financing sources (uses)	<u>(319,012)</u>	<u>(1,504,410)</u>	<u>1,116,672</u>	<u>(706,750)</u>
Net change in fund balances	(180,053)	(496,956)	490,848	(186,161)
Fund balances - beginning	<u>303,107</u>	<u>496,956</u>	<u>479,640</u>	<u>1,279,703</u>
Fund balances - ending	<u>\$ 123,054</u>	<u>\$ 0</u>	<u>\$ 970,488</u>	<u>\$ 1,093,542</u>

METCALFE COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 ACTIVITY FUNDS
 For the Year Ended June 30, 2014

	Fund Balance July 1, 2013	Revenues	Expenditures	Fund Balance June 30, 2014
Metcalf County High School	\$ 68,288	\$ 294,042	\$ 265,679	\$ 96,651
Summer Shade Elementary School	16,087	-	16,087	-
Edmonton Elementary School	12,852	-	12,852	-
North Metcalfe Elementary School	859	-	859	-
Metcalf County Primary Center	-	73,914	52,826	21,088
Metcalf County Intermediate	-	78,012	57,779	20,233
Metcalf County Middle School	<u>9,655</u>	<u>81,687</u>	<u>75,681</u>	<u>15,661</u>
Total Activity Funds (Due to Student Groups)	<u>\$ 107,741</u>	<u>\$ 527,655</u>	<u>\$ 481,763</u>	<u>\$ 153,633</u>

SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
SCHOOL ACTIVITY FUNDS

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
For the Year Ended June 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance 30-Jun-14	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balance June 30, 2014
Academic Team	\$ 124	\$ 400	\$ 305	\$ 219	\$ -	\$ -	\$ 219
Art Department	76	124	20	180	-	-	180
Athletics	4,522	41,466	43,174	2,814	53	-	2,867
Band	900	773	1,665	8	-	-	8
National Honor Society	780	1,664	1,838	606	-	-	606
Book Rental	383	527	383	527	-	-	527
Cheerleaders	130	1,525	1,655	-	-	-	-
Volleyball	498	-	435	63	-	-	63
Nursing Class	659	829	1,488	-	-	-	-
Class of 2017	1,459	245	1,459	245	-	-	245
Class of 2014	1,623	18,385	20,008	-	-	-	-
Class of 2015	1,476	10,653	9,790	2,339	-	-	2,339
Class of 2016	-	-	-	-	-	-	-
Computer Club/STLP	574	5,172	4,771	974	-	-	974
Concession Golf	325	312	610	28	-	-	28
Concession Girls Basketball	205	300	505	-	-	-	-
Concession Softball	1	300	258	44	-	-	44
Concession Boys Basketball	-	300	200	100	-	-	100
Concession Cross Country	560	500	620	440	-	-	440
Concession Dance Team	639	300	939	-	-	-	-
Concession Baseball	60	-	60	-	-	-	-
Concession Football	600	300	600	300	-	-	300
Athletics Tournament Share	16,856	-	8,358	8,498	-	-	8,498
Concession Volleyball	306	300	-	606	-	-	606
Concession Band	-	600	482	118	-	-	118
Dance Team	325	9,494	9,819	-	-	-	-
FCA	594	-	-	594	-	-	594
F.E.A	87	-	87	-	-	-	-
FFA	277	13,361	12,961	676	417	834	259
FCCLA	937	16,659	16,460	1,136	-	-	1,136
General	110	4,646	4,128	629	-	-	629
Interest	69	254	-	323	-	-	323
Library	2,146	1,480	2,432	1,194	-	-	1,194
Pep Club	182	127	309	-	-	-	-
Student Coke/Snack	2,493	10,900	12,651	742	-	-	742
Student Council	209	-	209	-	-	-	-

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
For the Year Ended June 30, 2014

	Cash Balance July 1, 2013	Receipts	Disbursements	Cash Balance 30-Jun-14	Accounts Receivable June 30, 2014	Accounts Payable June 30, 2014	Fund Balance June 30, 2014
Teachers' Lounge	\$ 2,281	\$ 11,123	\$ 9,702	\$ 3,702	\$ -	\$ -	\$ 3,702
Picture Day Fund	438	821	638	621	-	-	621
Yearbook	12,571	5,585	4,549	13,607	-	-	13,607
Girls Basketball Camp	845	2,215	2,506	554	-	-	554
HOSA	799	8,745	7,651	1,893	-	-	1,893
Concessions Tennis	665	1,352	2,017	-	-	-	-
Prom	4,155	5,994	5,994	4,155	-	-	4,155
Ice Cream Account	-	2,476	1,703	773	-	-	773
Flower Fund	21	-	-	21	-	-	21
Special Ed	119	-	119	-	-	-	-
Boys Basketball Camp	2,335	1,060	1,929	1,466	-	-	1,466
AP Account	15	789	356	448	-	-	448
FFA Booster Alumni	50	-	-	50	-	-	50
Football	-	29,536	18,139	11,397	570	-	11,967
Band	-	11,339	4,999	6,340	-	-	6,340
Volleyball	-	7,446	6,398	1,048	-	-	1,048
Boys Basketball	-	18,923	12,696	6,228	-	-	6,228
Girls Softball	-	10,177	5,791	4,385	-	-	4,385
Girls Basketball	-	11,065	10,139	926	-	-	926
Cheerleading	-	14,274	11,293	2,981	-	-	2,981
Dance Team	-	1,750	1,750	-	-	-	-
Health Career Certifications	-	3,851	1,284	2,567	-	-	2,567
Baseball	-	7,911	4,803	3,109	-	-	3,109
Barren River Region FFA	-	1,818	-	1,818	-	-	1,818
Teen Leadership	-	293	278	15	-	-	15
Digital Signs	-	1,950	1,950	-	-	-	-
MCHS Posters	-	1,106	-	1,106	490	-	1,596
Concessions Track	-	690	494	196	-	-	196
Archery Club	4,379	221	2,414	2,186	-	-	2,186
Concessions Bass Fishing	258	150	160	248	-	-	248
Project Graduation	-	500	-	500	-	-	500
Chess Club	212	-	-	212	-	-	212
Total All Funds	<u>\$ 69,328</u>	<u>\$ 305,056</u>	<u>\$ 278,429</u>	<u>\$ 95,955</u>	<u>\$ 1,530</u>	<u>\$ 834</u>	<u>\$ 96,651</u>
Interfund Transfers	-	(12,582)	(12,582)	-	-	-	-
Total	<u>\$ 69,328</u>	<u>\$ 292,474</u>	<u>\$ 265,847</u>	<u>\$ 95,955</u>	<u>\$ 1,530</u>	<u>\$ 834</u>	<u>\$ 96,651</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor <u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>			
Passed-Through KY Workforce Development Cabinet			
Adult Education - Basic Grants to States	84.002	3732	\$ 294
Adult Education - Basic Grants to States	84.002	3764	9,514
Total KY Workforce Development Cabinet			9,808
Passed-Through GRREC			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	6974	3,414
Total GRREC			3,414
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3102M	2,197
Title I - Grants to Local Educational Agencies	84.010	3103	180,792
Title I - Grants to Local Educational Agencies	84.010	3103D	11,240
Title I - Grants to Local Educational Agencies	84.010	3103M	5,729
Title I - Grants to Local Educational Agencies	84.010	3104	477,038
Title I - Grants to Local Educational Agencies	84.010	3104D	8,140
Title I - Grants to Local Educational Agencies	84.010	3104M	3,296
Title I - Grants to Local Educational Agencies	84.010	3202	2,430
			690,862
Migrant Education - State Grant Program	84.011	3112	9,667
Migrant Education - State Grant Program	84.011	3112S	17,890
Migrant Education - State Grant Program	84.011	3113	20,201
Migrant Education - State Grant Program	84.011	3113S	2,166
Migrant Education - State Grant Program	84.011	3114	80,561
			130,485
Career and Technical Education-Basic Grants to States	84.048	3453	226
Career and Technical Education-Basic Grants to States	84.048	3483A	846
Career and Technical Education-Basic Grants to States	84.048	3454	58
Career and Technical Education-Basic Grants to States	84.048	3484	14,413
			15,543
Rural Education	84.358	3503	27,083
Rural Education	84.358	3504	8,892
			35,975
Improving Teacher Quality State Grants	84.367	4013	79,100
Improving Teacher Quality State Grants	84.367	4014	105,949
			185,049
Race To The Top	84.413	4364	1,287
Race To The Top	84.413	4364F	3,032
Race To The Top	84.413	4364Y	4,060
Race To The Top	84.413	4521	233
			8,612
Twenty-First Century Community Learning Centers	84.287	5502	73,503
Twenty-First Century Community Learning Centers	84.287	5502X	54,816
Twenty-First Century Community Learning Centers	84.287	5503	57,430
Twenty-First Century Community Learning Centers	84.287	5503X	55,060

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor <u>Program Title</u>	CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	Federal <u>Expenditures</u>
Twenty-First Century Community Learning Centers	84.287	5503Z	\$ 17,000
			257,809
Special Education Cluster			
Special Education - Grants to States	84.027	3373	97,286
Special Education - Grants to States	84.027	3374	332,348
Special Education - Preschool Grants	84.173	3432	14,973
Special Education - Preschool Grants	84.173	3433	16,080
Total Special Education Cluster			460,687
School Improvement Grants Cluster			
ARRA- School Improvement Grants	84.388	5600C	185,961
Total School Improvement Grants Cluster			185,961
Total U.S. Department of Education			1,984,205
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 13	123,593
National School Lunch Program	10.555	7750002 14	438,769
School Breakfast Program	10.553	7760005 13	55,976
School Breakfast Program	10.553	7760005 14	210,051
Summer Food Service Program for Children	10.559	7740023 14	9,795
Total Child Nutrition Cluster			838,184
Passed-Through State Department of Agriculture			
Commodity Supplemental Food Program	10.565	51	61,176
Fresh Fruit and Vegetable Program	10.582		15,562
Total U.S. Department of Agriculture			914,922
Total Federal Financial Assistance			<u>\$ 2,899,127</u>

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Metcalfe County School District under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Metcalfe County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the Metcalfe County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity indentifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting

- Material weakness(es) identified? Yes **X** No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes **X** None Reported

Noncompliance material to financial statements noted? Yes **X** No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? Yes **X** No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes **X** None Reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? **X** Yes No

Identification of major programs

CFDA Number

Name of Federal Program or Cluster

84.027, 84.173
84.388
84.367

U.S. Department of Education
Passed through the Kentucky Department of Education:

Special Education Cluster (IDEA)
School Improvement Grants Cluster
Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? **X** Yes No

Section II - Financial Statement of Findings

No matters were reported

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

Section III – Federal Award Findings and Questioned Costs

Item 2014-01 – Lack of Proper Time-and-Effort Report for Federal Funds

Condition and Criteria: The Metcalfe County School District has several employees that are paid with federal funds. OMB Circular A-87, Attachment B, Section 8h requires employees paid through federal funds not used in a school-wide program and working on a single cost objective to support their payroll charges by semi-annual certifications signed by the employee or a supervisory official having firsthand knowledge of the work performed. The District has not implemented the semi-annual certification for those employees working on a single cost objective that are paid with federal funds not used in a school-wide program.

Cause: The documentation accepted in prior years for this compliance requirement has been time sheets, etc., but not a signed certification as required by OMB Circular A-87, Attachment B, Section 8h.

Effect: Time-and-effort documentation for federally funded wages has not been properly documented as required by OMB Circular A-87, Attachment B, Section 8h.

Recommendation: We recommended documenting wages paid to employees working on a single cost objective paid by federal funds not included in a school-wide program on a semi-annual basis as required by OMB A-87, Attachment B, Section 8h.

Management Response: Management agrees with this comment. The District has felt that the time-and-effort documentation requirements for wages paid by federal funds not included in a school-wide program was being met by board approved Salary Schedules and time sheets. OMB Circular A-87, Attachment B, Section 8h requires a semi-annual certification for those employees that meet the standards listed above. We will implement a process in which proper time-and-effort documentation is performed as required by OMB Circular A-87, Attachment B, Section 8h.

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2014

Financial Statement Findings

The audit of Metcalfe County School District for the year ended June 30, 2013, revealed no audit findings requiring corrective action.

Federal Award Findings and Questioned Costs:

The audit of Metcalfe County School District for the year ended June 30, 2013, revealed no audit findings requiring corrective action.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENTAL AUDITING STANDARDS*

Kentucky State Committee for School District Audits
Members of the Board of Education
Metcalf County School District
Edmonton, KY 42129

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the requirements prescribed by the Kentucky State Committee for School District Audits *Independent Auditor's Contract* in Appendices I, and II of the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metcalfe County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Metcalfe County School District's basic financial statements and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metcalfe County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metcalfe County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Metcalfe County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metcalfe County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the *State Audit Requirements* section of the *Independent Auditor's Contract*.

We also noted other matters that we reported to management of Metcalf County Board of Education in a separate letter dated October 14, 2014.

Purpose of this Report

The purpose of this report is to solely describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wise, Buckner, Sprowles & Associates PLLC

Wise, Buckner, Sprowles & Associates PLLC
Campbellsville, KY

October 14, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Metcalf County School District
Edmonton, KY 42129

Report on Compliance for Each Major Federal Program

We have audited Metcalf County School District's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Metcalf County School District's major federal programs for the year ended June 30, 2014. Metcalf County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Metcalf County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for Schools District Audits Independent Auditor's Contract, Appendix I of the Independent Auditor's Contract – Audit Extension Request, and Appendix II of the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Metcalf County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Metcalf County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Metcalf County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-01. Our opinion on each major federal program is not modified with respect to these matters.

The Metcalf County School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Metcalf county School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Metcalf County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Metcalf County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Metcalf County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wise, Buckner, Sprowles & Associates PLLC

Wise, Buckner, Sprowles & Associates PLLC
Certified Public Accountants

Campbellsville, Kentucky
October 14, 2014

MANAGEMENT LETTER

October 14, 2014

Members of the Board of Education
Metcalf County School District
Edmonton, Kentucky

In planning and performing our audit of the financial statements of the Metcalf County School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance of the internal control structure.

However, during our audit we became aware of two matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters, but we would first like to address the progress of the management letter points from the previous audit.

The management letter from the previous fiscal year discussed four points with respect to strengthening internal controls within the Central Office. The following observations were made concerning the prior year management letter points:

Central Office – Finance Department

Finding #1 – During our audit procedures for capital assets, we discovered several inconsistencies between new asset additions reports and the amounts reflected on the financial statements.

Prior year recommendation – We recommend that management review current procedures over capital assets and establish and implement controls over the recording of capital assets that include reconciliation of capital assets to current year additions and retirements to match actual activity to ensure proper presentation.

Current year observation – To enhance controls over capital assets, responsibilities were given to Lanetta Shive, a member of the Central Office staff with prior experience with capital assets. As a result, the amounts found on the reports generated were consistent with financial statement amounts.

Finding #2 - During our fieldwork, one immaterial unrecorded accounts payable was found that should have been recorded as accounts payable at June 30, 2013.

Recommendation – Although controls for year-end closing procedures concerning accounts payable are implemented, we would recommend that procedures be included to allow for two people, preferably the Assistant Finance Officer and the Finance Officer be involved in the process of recording accounts payable.

Current year observation – No unrecorded accounts payable were found as of the date of fieldwork testing for unrecorded accounts payable.

Finding #3 - The District has several Certificates of Deposit with varying dates of maturity of which accrued interest receivable is not being recorded. This is a repeat finding.

Recommendation – We recommend the Finance Officer obtain sufficient documentation such as dates of maturity, interest rates and the balance of the Certificates of Deposit at fiscal year-end to be able to calculate and record the interest accrual.

Current year observation – All certificates of deposits for the District matured and were not renewed during the current fiscal year. Accrued interest receivable is no longer applicable.

Finding #4 - During our fieldwork, one immaterial unrecorded accounts receivable was found that should have been recorded as accounts receivable at June 30, 2014.

Recommendation – Although controls for year-end closing procedures concerning accounts receivables are implemented, we would recommend that the internal control process of identifying and recording accounts receivable be reviewed and implement additional procedures, if applicable, that includes an additional reconciliation or cross check.

Current year observation – No unrecorded accounts receivable were found as of the date of fieldwork testing for unrecorded accounts receivable.

The following memorandum discusses the current year management letter points. We will review the status of these comments during our next audit engagement. We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the Board is complying with requirements such as those mentioned in the following memorandum.

This communication is intended solely for the information and use of management, Metcalfe County Board of Education, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Wise, Buckner, Sprowles & Associates PLLC

Wise, Buckner, Sprowles & Associates PLLC
Certified Public Accountants

Current Year Finding and Recommendation

Central Office – Finance Department

Finding #1 – During our audit procedures for capital assets, we discovered several invoices totaling \$86,338 that were subject to be capitalized but were not. This oversight was subsequently corrected upon notice given to Finance Director Dwight Ross.

Recommendation – We recommend that management review the District’s policy and procedures concerning identification and recording of transactions subject to capitalization and implement additional procedures, if management feels necessary, that will strengthen the controls over identifying and recording transactions subject to capitalization. We understand the large volume of capitalization due to major construction within the District this current year and have taken this fact in consideration in forming this comment.

Management Response

Management agrees with the finding and the recommendation will be discussed within the finance department.

Finding #2 - During our fieldwork for major program cash management, the original monthly project reports used to generate the federal cash requests were not attached to the request.

Recommendation – As a best practice, we recommend the monthly federal cash request documentation include the monthly project reports used to make the cash request and attached to the cash request document.

Management Response

Management agrees with the finding and the recommendation will be discussed within the finance department.

Current Year Finding and Recommendation

High School Activity Fund

Finding #3 - During our audit procedures for fundraising at Metcalfe County High School, the MCHS Cheer Boosters held a fundraiser of “31 Gift Sales” in which no transactions were run through the activity fund except a net deposit. Fundraisers of this type need to run all transactions through the activity fund

Recommendation – We recommend all new activity fund sponsors take the required training to properly record fundraising activity as required by Redbook.

Management Response

Management agrees with the finding and the recommendation will be discussed with the high school bookkeeper.